

PTA REINSURANCE COMPANY (ZEP-RE)

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS
YEAR ENDED 31 DECEMBER 2004

Foreword

The year 2004 will be remembered as the first year of operations of restructured ZEP-RE. The restructuring created a new sense of direction and impetus for efficiency, growth and effectiveness in the organization.

Much of our focus for the past year has been on prudent underwriting, cleaning of books and streamlining operations. All these initiatives enhanced the company's value and quality to our clients, and ultimately saw the company obtain a regional AA rating and an international BBB- rating by Global Credit Rating Company based in South Africa.

Business Environment

The year under review witnessed three major events in the region, namely the signing of the peace agreement in Sudan, the enactment of the Customs Union in East Africa and the formation of a government of national unity in Somalia. These major events have opened new business avenues among COMESA states that ZEP-RE will strategically seek to exploit. Despite these achievements, the region continued to experience challenges emanating from political, economic and social problems, both at national and regional level. These challenges continue to impact on the regional economies and the insurance industry in particular.

Volatile exchange rate regimes and low interest rates during the period coupled with unpredictable weather conditions all contributed to the poor economic performance in the region.

On a positive note, majority of the COMESA states registered modest economic growths and low inflation rates during the period.

The reinsurance sector continues to be characterised by limited underwriting capacity, high retrocession costs and hard terms. In spite of the difficulties and challenges, the company recorded an increased profit during the period.

1. Profitability

Gross written premiums decreased by USD 1,265,437 from USD 25,638,494 in 2003 to USD 24,373,057 in 2004, a 4.9% decrease. This is mainly attributable to selective underwriting considerations.

I am pleased to report that the company was able to achieve a profit of USD 2,036,919 in 2004 compared to USD 1,367,299 in 2003. The increase in profits is largely due to commitment by both the Board and Management on efforts geared towards greater achievements for ZEP-RE.

I wish to sincerely commend all of you for your tireless efforts in making ZEP-RE achieve this profitability.

2. Share Capital

The company continued with efforts aimed at mobilizing capital by following up with existing as well as inviting new investors to subscribe for shares in the company. As a result the paid up capital increased from US\$ 9,763,018 in 2003 to US\$ 10,519,981 in 2004. The company has as a result received positive responses from Member countries of the region on

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acquisition of more shares. This is expected to provide a more equitable distribution of the company's shares amongst institutions within the region.

I wish to take this opportunity to inform all interested parties that shares in ZEP-Re are still available to both current and prospective members. Any institution, whether private or government owned, including Governments of the region are allowed to acquire shares.

3. Corporate Governance

ZEP-RE is committed to the highest standards of corporate governance. Its governance structure is flexible enough to adapt to changes in the internal and external environment and the company regularly reviews its processes, rules, regulations and structure with a view to ensuring the best performance of the Board, Board Committees and overall management of its business. ZEP-RE adheres to global standards and practices of good corporate governance. Key aspects of our approach to corporate governance are as follows: -

The Board of Directors

The Board meets at least four times a year and is composed entirely of non-executive Directors. The Board provides overall strategic direction, reviews performance and takes material policy decisions. Responsibility for implementing strategy and day to day operations is delegated by the Board to the Managing Director and top management.

Board Committees

The Board Audit Committee is chaired by Director Zeru Woldemichael and meets regularly to review effectiveness of internal controls and general financial matters. The Board Investments Committee is chaired by Director Johnson Githaka and meets four times a year to review all policy issues pertaining to investments.

4. Corporate Social Responsibility

I am pleased to report that ZEP-RE has adopted a structured approach to social issues. In 2004 the company supported two social responsibility initiatives namely; Starehe Girls Centre, an education institution for needy girls located in Kenya and the "Family Relief Fund" a project facilitated by the Republic of Kenya to alleviate hunger amongst communities affected by famine in Kenya.

5. Way Forward

As we stated in the past, emphasis will continue to be placed on achieving the objectives set out in our Corporate Plan, which are growth, stability and profitability. I believe we will achieve these objectives with the continued support of our new clients and shareholders. The Board and Management remain dedicated to adding value to our shareholders.

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6. Directorship

a. KENYA

Director

Hon. Peter Kenneth, M. P.
Assistant Minister
Co-operative Development – Kenya

Alternate Director

Mr. Alex Keter
Permanent Secretary
Ministry of Trade & Industry – Kenya
(Retired)

b. KENYA

Director

Mr. Johnson J. Githaka
Managing Director
Kenya Reinsurance Corporation
Kenya

Alternate Director

Mr. Sam Muhindi
Managing Director
Blue Shield Insurance Company
Kenya

c. TANZANIA

Director

Mrs. Margaret T. Ikongo
Managing Director
National Insurance Corporation of Tanzania
Tanzania

Alternate Director

Mr. Iddi K. Haji
General Manager
Zanzibar Insurance Corporation
Tanzania

d. ZAMBIA

Director

Ms. Irene Muyenga
Managing Director
Zambia State Insurance Corporation
Zambia

Alternate Director

Mr. Chris M. Mapipo
Registrar
Pensions and Insurance Authority
Zambia

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e. SUDAN

Director Mrs. Amna A. Mohammed
General Manager
The Insurance Supervisory Authority
Sudan

Alternate Director Mrs. Shamoum M.A. Alamin
Deputy General Manager
The Insurance Supervisory Authority
Sudan

f. ERITREA

Director Mr. Zeru Wodemichael
General Manager
National Insurance Corporation of Eritrea
Eritrea

Alternate Director Mr. Mesghina Nemariam
Technical Manager
National Insurance Corporation of Eritrea
Eritrea

g. RWANDA

Director Mr. Camille Karamaga
Director of Budget
Ministry of Finance and Economic Planning
Rwanda

Alternate Director Mrs. Marie Claire Mukasine
Managing Director
Société Nationale d'Assurances du Rwanda
Rwanda

h. UGANDA

Director Mr. Joseph W. Kiwanuka
Managing Director
Statewide Insurance Company
Uganda

Alternate Director Mr. John Carruthers
Executive Chairman
National Insurance Corporation of Uganda
Uganda

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i. PTA BANK

Director	Dr Michael Gondwe President PTA Bank Kenya
Alternate Director	Mr. James K. Kabuga Principal Officer, Credit Facilities and Business Department PTA Bank Kenya

j. PARASTATAL PENSIONS FUND (PPF)

Director	Mr. Naftal Mathayo Nsemwa Director General Parastatal Pensions Fund (PPF) Tanzania
Alternate Director	Mr. Michael R. Mjinja Director of Commercial Services Parastatal Pensions Fund (PPF) Tanzania

7. Appreciation

The year 2004 was by and large a successful year for ZEP-RE. Therefore, on behalf of the Board, I would like to take this opportunity to once again give my heartfelt thanks to all our cedants, intermediaries, retrocessionaires, shareholders and other business partners for their invaluable support.

I also wish to extend my thanks to the management and staff of ZEP-RE for their dedication and contribution in making 2004 another successful year, and my fellow directors for their valuable counsel and support.

Peter Kenneth, M.P.
Chairman, Board of Directors

PTA REINSURANCE COMPANY (ZEP-RE)

REPORT OF THE BOARD OF DIRECTORS YEAR ENDED 31 DECEMBER 2004

The Directors of the Board take great pleasure in presenting their eleventh annual report with the audited financial statements for the year ended on 31 December 2004. The report is made in accordance with the provisions of Article 31 of the Agreement Establishing the PTA Reinsurance Company (ZEP-RE). In keeping with established Company practice, the business is divided into the following classes.

- Fire and accident (including Engineering and Motor)
- Marine and Aviation
- Life

A. PREMIUM INCOME AND FINANCIAL HIGHLIGHTS

The financial highlights are as shown below

	2004	2003
	US\$	US\$
Gross Premium	24,373,057	25,638,494
Underwriting Profit / (Loss)	2,357,652	1,796,910
Investment Income	369,944	263,384
Management Expenses	1,781,027	1,784,448
Commission Expenses	4,528,661	5,168,792
Net Profit / (Loss)	2,036,919	1,367,299
Provision for Outstanding Claims	6,138,729	2,934,210
Unearned Premiums	7,533,626	7,753,628
Total Assets	29,484,930	22,681,193
Share Capital	10,519,981	9,763,018
Investments	14,708,118	10,996,075
Management Expense Ratio	9.46%	9.20%
Loss Ratio	52.80%	38.10%

B. OPERATIONS

The table below provides an analysis of some key indicators of the company's business for the financial year ended 31 December 2004 compared to indicators for 2003

	2004	2003
Description	US\$	US\$
Gross Premium	24,373,057	25,638,494
Retroceded Premium	5,538,992	6,254,423
Net Premium	18,834,065	19,384,071
Earned Premium	19,054,067	16,411,911
Claims Incurred	9,943,515	7,390,105
Commissions	4,528,661	5,168,792
Charges	443,212	271,656
Underwriting Profit	2,357,652	1,796,910

PTA REINSURANCE COMPANY (ZEP-RE)

BALANCE SHEET 31 DECEMBER 2004

	Note	2004 US\$	2003 US\$
ASSETS			
NON-CURRENT ASSETS			
Property and Equipment	3	4,523,297	1,897,387
Prepaid Lease	4	236,867	239,538
Intangible Assets	5	19,474	3,365
		<u>4,779,638</u>	<u>2,140,290</u>
CURRENT ASSETS			
Amounts Due From Reinsurance Clients	6	7,423,488	6,717,345
Deposits Retained by Ceding Companies		1,860,542	1,376,512
Sundry Debtors		376,120	294,663
Short Term Investments	7	13,859,368	10,152,325
Long Term Investments (Unquoted)	8	848,750	843,750
Bank and Cash Balances	9	337,024	1,156,308
		<u>24,705,292</u>	<u>20,540,903</u>
TOTAL ASSETS		<u>29,484,930</u>	<u>22,681,193</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
CURRENT LIABILITIES			
Amount Due to Reinsurance Creditors		557,001	2,092,510
Deposits Retained on Ceded Reinsurance Business		709,715	179,955
Other Creditors and Accruals		715,890	370,854
		<u>1,982,606</u>	<u>2,643,319</u>
LONG TERM LOAN	10	<u>1,676,630</u>	<u>-</u>
DEFERRED INCOME	11	<u>71,720</u>	<u>72,535</u>
TECHNICAL PROVISIONS			
Outstanding Claims		6,138,730	2,934,210
Unearned Premiums		7,184,158	7,753,628
	12	<u>13,322,888</u>	<u>10,687,838</u>
SHAREHOLDERS' FUNDS			
Paid-Up Share Capital	13	10,519,981	9,763,018
Revaluation Surplus	14	11,830	11,830
Accumulated Profit	15	1,833,675	112,356
Proposed Dividends		315,600	-
Cumulative Translation Adjustment	16	(250,000)	(609,703)
		<u>12,431,086</u>	<u>9,277,501</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>29,484,930</u>	<u>22,681,193</u>

The financial statements were approved by the Board on 21 March 2005 and signed on its behalf by:-

Peter Kenneth
Chairman

Shadreck M. Lubasi
Managing Director

PTA REINSURANCE COMPANY (ZEP-RE)

PROFIT AND LOSS ACCOUNT YEAR ENDED 31 DECEMBER 2004

	Note	2004 US\$	2003 US\$
INCOME			
Underwriting Profit		2,357,652	1,796,910
Investment Income		369,944	263,384
Income from Other Sources		11,900	100,395
Interest on Reinsurance Deposits		57,850	49,933
Management Fees		41,250	37,500
Total Income		2,838,596	2,248,122
EXPENSES			
General Assembly and Board of Directors Meetings		121,057	127,517
Audit and Professional Services		11,500	12,000
Restructuring Costs		-	76,049
Depreciation	3	40,812	40,149
Amortisation of Intangible Assets		10,769	2,896
Amortisation of Prepaid Lease		2,671	2,671
Bad Debts Write Off		-	17,961
Provision for Bad and Doubtful Debts		308,338	291,926
Realised (Gain) / Loss on Exchange		(80,118)	109,654
Cumulative Translation Adjustment Write Off		359,703	200,000
Interest on HQ Construction Loan		26,945	-
Total Expenses		801,677	880,823
PROFIT FOR THE YEAR		2,036,919	1,367,299
APPROPRIATIONS			
Profit for the Year		2,036,919	1,367,299
Balance Brought Forward		112,356	(1,254,943)
Proposed Dividends		2,149,275	112,356
Balance Carried Forward		1,833,675	112,356
Earnings per Share	17	273.96	198.48

PTA REINSURANCE COMPANY (ZEP-RE)**REVENUE ACCOUNT
YEAR ENDED 31 DECEMBER 2004**

	Fire and Accident	Marine and Aviation	Life	Total 2004	Total 2003
	US\$	US\$	US\$	US\$	US\$
UNDERWRITING INCOME					
Gross Premiums	20,894,220	2,916,010	562,827	24,373,057	25,638,494
Retrocession Premiums	(5,174,583)	(364,409)	-	(5,538,992)	(6,254,423)
Net Premiums	15,719,637	2,551,601	562,827	18,834,065	19,384,071
Unearned Premiums – Start of Year	6,534,991	946,970	271,667	7,753,628	4,781,468
Unearned Premiums – End of Year	(6,287,854)	(1,020,641)	(225,131)	(7,533,626)	(7,753,628)
Earned Premiums	15,966,774	2,477,930	609,363	19,054,067	16,411,911
UNDERWRITING OUTGO					
Claims Paid	5,513,466	783,089	442,441	6,738,996	6,815,811
Outstanding Claims – End of Year	5,587,886	508,681	42,162	6,138,729	2,934,210
Outstanding Claims – Start of Year	(2,540,346)	(381,608)	(12,256)	(2,934,210)	(2,359,916)
Claims Incurred	8,561,006	910,162	472,347	9,943,515	7,390,105
Commissions	3,719,768	708,187	100,706	4,528,661	5,168,792
Charges	383,903	56,780	2,529	443,212	271,656
Management Expenses	12,664,677	1,675,129	575,582	14,915,388	12,830,553
Total Outgo	14,164,606	1,888,072	616,676	16,696,415	14,615,001
UNDERWRITING PROFIT					
Taken to Profit & Loss Account	1,802,168	589,858	(7,313)	2,357,652	1,796,910